KENTUCKY REVENUE CABINET

Strategic Plan

2003 - 2006

STATEMENT OF ALIGNMENT

The Revenue Cabinet's Strategic Plan 2003–2006 is based upon the principle that citizens voluntarily pay their fair share of taxes to support government. Rightfully, with that willingness come certain expectations—foremost of which is accountability. Citizens must know that taxes are used wisely. Citizens also have unambiguous expectations of the Revenue Cabinet. Those expectations include a comprehensible account of what their tax obligations are and when they are due. They also expect an easy method to fulfill those obligations. They expect a tax collection system that is cost efficient—both for them and the government. They demand quick, accurate, and courteous responses to inquiries. Finally, citizens expect a rapid return of any overpayments they may have made.

In fulfilling its mission, the **driving force** in Revenue is '**the customer**'—the citizen. The cabinet is not driven by interest rates, stock markets, research and development, competition or technology. Although these factors may be considered during planning, the overarching driving force in Revenue is the customer. Whether it be the governor, the legislature, small business owners, large corporations, individual taxpayers, local officials or attorneys and CPAs, the cabinet determines the needs of these customers and stakeholders and sets strategies to meet as many needs as possible through careful allocation of resources within the context of its mandates and mission of fair and impartial administration of tax laws.

Progress is impossible without change, and those who cannot change their minds cannot change anything.

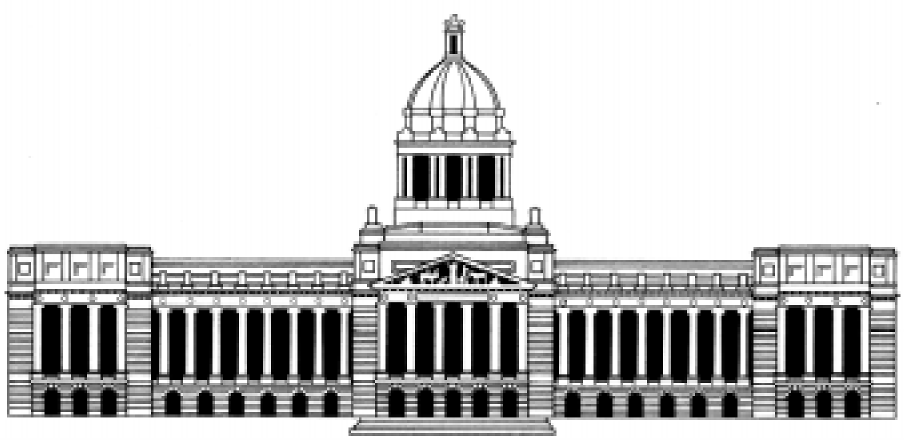
—George Bernard Shaw

Governor Patton has established a goal to 'set Kentucky on the path to achieving economic opportunity and a standard of living above the national average in 20 years'. One strategy to achieve that goal is to strengthen the efficiency and operation of government. The Revenue Cabinet's strategic plan directly supports that strategy. As it enters the new millennium, the cabinet's goals and objectives are based upon its current situation analysis. The cabinet surveyed numerous customer and stakeholder groups to gauge their evaluation of current services and their expectations for the future. From that analysis and an analysis of internal and external trends, grew an understanding of what is needed. The Revenue Cabinet plans to increase e-government initiatives in order to make information and services more readily available to the public. A streamlined registration process to simplify interaction between taxpayers and the Revenue

Cabinet is envisioned. Improved security and privacy measures will be implemented for on-line transactions. These efforts are a continuation of EMPOWER Kentucky initiatives begun in 1997 and represent significant improvements in efficiency.

The plan also calls for improvement in the quality and timeliness of information available to policy makers. To assist policy makers in addressing tax fairness and adequacy of the state's revenue base, the Revenue Cabinet will continue development of the data warehouse project known as the Revenue Evaluation And Decision Support System (READS). The strategic plan further calls for significant work force training in tax, systems, software and continuous quality improvement principles, all of which will improve efficiencies.

Another goal of the Patton Administration is to establish a rational evaluation of where Kentucky ranks among its peer states by determining relevant benchmarks. Revenue extended that concept to the cabinet level when setting performance indicators. Some performance indicators in Revenue's strategic plan are recommended by the Federation of Tax Administrators for revenue agencies. Those indicators will enable us to benchmark our efficiency of operations in relation to other state departments of revenue.



VISION

The Revenue Cabinet's **vision for the future** is best described as a definition of success—success in achieving its strategic plan. Because Revenue is a service entity, its plan, (and its vision), focus on goals that fulfill the needs of various constituents. Successful implementation of the Revenue Cabinet Strategic Plan 2003–2006 will result in…

Improved services to taxpayers

- Streamlined registration processes
- Expanded e-government services
- Greater security and privacy measures

Improved services to the Executive and Legislative Branches

- More timely information for policy decisions
- More accurate information for policy decisions
- More analytical services

Improved cash flow to State Treasury

- Accelerated tax receipts depositing
- Shortened audit, resolution and collection cycle time

Increased revenue to State Treasury

- Increased identification and closure of tax gaps
- Expanded public awareness programs

Increased efficiencies

- Improved management of resources

> *If decisions were a choice between alternatives, decisions would come easy. Decision is the selection and formulation of alternatives.*
>
> *—Kenneth Burke*

KRC Strategic Plan 2003-2006

Development of KRC's leaders of the future

- Training and development in leadership skills
- Broadened base of tax expertise
- More cross-training of work force
- Career path plans

Improved Communications

- More interaction with other state agencies
- Better interaction with local officials
- Better communication with employees

Where there is no vision, the people perish.

—Ecclesiastes

VALUES

The Cabinet's Statement of Values, drawn from its strategy and mission, represent the fundamental beliefs that shape the approach to policy and operations within a new framework. IT IS A COMMITMENT TO SERVICE.

Commitment to High Standards of Service

The Cabinet is committed to raising the standards of tax administration by providing professional, courteous, accurate and efficient service to taxpayers of the Commonwealth as they try to voluntarily comply with Kentucky's tax laws.

This commitment to service—the core of the Cabinet's tax administration philosophy will be a daily expression of the Revenue Cabinet's values system. The high standards set for the Cabinet on behalf of the Commonwealth will guide strategies and assist in establishing goals and objectives.

Commitment to Assisting Taxpayers

The Cabinet will continuously improve its efforts to educate taxpayers of their rights and responsibilities. Assistance will be given to facilitate easy and accurate reporting.

Commitment to Employees and the Services they Provide.

The Cabinet recognizes that its employees are its greatest asset and they should be encouraged and empowered to use their creativity and resourcefulness in fulfilling the Cabinet's mission.

Employees must be dedicated to teamwork and professional development to ensure adequate response and efficient delivery of service.

Commitment to Flexibility and Effectiveness in Serving Taxpayers.

The Cabinet will shift resources and embrace new technologies to address changing needs and demands.

> *We must make the choices that enable us to fulfill the deepest capacities of our real selves.*
>
> *—Thomas Merton*

Commitment to Fair and Impartial Administration and Enforcement.

The Cabinet is committed to administering the tax laws of the Commonwealth fairly, equitably and impartially without regard to taxpayers' status, wealth, political affiliation, race, color, creed or disability.

Thus, in an effort to earn total and absolute confidence of Kentucky's taxpayers regarding its fair administration of the tax laws, the Cabinet will exhibit honesty and integrity in all dealings with taxpayers and avoid any situation or action which could result in the slightest perception of unfair practices or questionable behavior.

Promoting voluntary compliance, educating taxpayers of their responsibilities and quality service will be the Cabinet's daily commitment to Kentucky and its citizens.

The Cabinet will not lose sight of those it serves!

Find something you love to do and you'll never have to work a day in your life.

—Harvey Mackay

GOAL 1: PROVIDE QUALITY SERVICE TO CUSTOMERS AND STAKEHOLDERS.

Government derives its legitimacy from citizens. However, citizens are not only stakeholders in the government they created. Many times they are also customers demanding products and services. Incorporating what customers tell us into our overall strategies will ensure that programs focus on meeting customer expectations.

The Revenue Cabinet consistently provides high levels of service to its various customers and stakeholders—individual taxpayers, large and small businesses, tax practitioners, local officials, the governor and the legislature. This first goal in the strategic plan is established as the primary aim of Revenue to maintain that high level of service by constantly seeking new ways to deliver timely and accurate service designed to address specific needs.

Objective 1.1 Conduct recurring, periodic seminars for local officials over the next four years.

During the course of developing the Revenue Cabinet Strategic Plan FY 2003–2006, various local officials were surveyed. Those surveyed included PVAs, county judge-executives, county attorneys, county clerks, sheriffs, school superintendents, city managers, and mayors. This important group of stakeholders was asked what they thought this agency is doing right and what they thought this agency could do better. Local taxing jurisdictions have a stake in the property valuations and property tax compliance and collection programs. A large majority of this group requested that we meet with them to review tax law changes and the impact those changes might have on their jurisdictions.

To give real service you must add something which cannot be bought or measured with money, and that is sincerity and integrity.

—Donald A. Adams

Output measures:

- Number of attendees at KRC sponsored seminars
- Number of seminars conducted annually

Outcome measure:

- Attendee satisfaction measured through seminar evaluations and surveys

Objective 1.2 Establish and implement a strategy and marketing plan to increase the Revenue Cabinet's e-government initiatives.

Consumers are turning more and more to the Internet for information, products, and services. Access to information and services 24 hours a day, seven days a week is rapidly becoming an expectation. Citizens are no longer willing to use valuable time to visit courthouses and other government offices if they can conduct the same business online. It is incumbent upon a responsive government to offer more services online, in a secure environment. E-government in the Revenue Cabinet refers to **Everyday Government**. That term implies information and services are available everyday, regardless of whether offices are actually open. To the extent Revenue Cabinet services can be offered online, the Cabinet will seek to do so. To maximize the efficiencies of online services, citizens must know what information is available and where to find it on the Internet. This objective addresses the need to develop a marketing strategy.

Input measures:

- Dollars invested in paid advertising
- Number of services available from Web site

Outcome measures:

- Increase in the number of voluntary electronic filers
- Increase in number of Web site information packets available
- Percentage of dollars received via Electronic Funds Transfer (EFT)

Objective 1.3 Reduce telephone time, effort, and caller anxiety by redesigning the Cabinet's automated attendant system to be more user friendly.

The Revenue Cabinet receives thousands upon thousands of telephone calls each year from citizens needing information or assistance with their tax obligations. A telephone system that provides lengthy and confusing instructions to callers can increase anxiety levels and frustrate taxpayers. Contacting the Revenue Cabinet by telephone need not be an unpleasant experience.

Output measures:
- Reduced wait time as determined from telephone Automated Call Distribution (ACD) reports
- Reduction in the number of abandoned calls as determined from ACD reports

Outcome measure:
- Increase in taxpayer satisfaction ratings as determined by surveys

Objective 1.4 Explore cross-agency opportunities within state government to address multi-ethnic service delivery during the next four years.

Kentucky is expected to gain 175,000 non-English speaking people through international migration between 1995 and 2025, mainly Asians and Hispanics. In order to meet the needs of new citizens, who may have not yet gained a working use of the English language, the Cabinet will have translators available for taxpayer assistance. One purpose is to minimize the anxiety level new citizens may have in dealing with unfamiliar systems of taxation. By taking a proactive approach to meeting these needs, the Cabinet hopes to help new citizens understand their responsibilities and avoid unintentional noncompliance with Kentucky's tax laws.

Output measures:
- Use of multi-lingual options on telephone automated attendant system
- Directory or database of multi-lingual state employees available for translation service

We would rather have one man or woman working with us than three merely working for us.

—F.W. Woolworth

Objective 1.5 Implement improved security and privacy measures that meet public expectations for IT systems and online transactions.

The Kentucky Revenue Cabinet continues to place the highest priority on the security of taxpayer information and implements policies to protect taxpayer privacy. The Cabinet educates employees about the importance of maintaining confidentiality while allowing necessary electronic access in order to provide accurate and effective taxpayer services. A heightened awareness of the importance of security at all levels of the organization has precipitated multiple technology initiatives with respect to physical security, network security, and application security. By taking a proactive multi-pronged approach, KRC will provide a secure environment to house important electronic government applications.

Output measures:

- Number of attempted intrusions successfully stopped
- Development of Cabinet privacy statement

Objective 1.6 Improve the quality and timeliness of information available to policy makers and citizens over the next four years.

Policy makers in both the Executive and Legislative Branches need timely and accurate information when addressing tax fairness and adequacy of the state's revenue base. The Cabinet is often called upon to research the impact of legislative proposals. To improve the analysis of data and turn that data into information (knowledge), the Cabinet developed a data warehouse which links key databases. This warehouse technology is being employed to analyze proposals. The warehouse also provides information to management that can be helpful in determining how best to allocate resources.

When one door of happiness closes, another opens; but often we look so long at the closed door that we do not see the one which has been opened for us.

—Helen Keller

Output Measures:

- Focused education, compliance, and assistance efforts based upon customer demographics
- Number of customers and stakeholders opting to receive online press releases

Outcome Measures:

- Improved analysis of policy alternatives
- Better informed taxpayers and a more fair and efficient administration of state programs

GOAL 2: ENSURE THE REVENUE CABINET MAINTAINS A HIGHLY SKILLED AND MOTIVATED WORKFORCE.

To effectively meet the demands of customers and stakeholders, the Cabinet must maintain a highly skilled and motivated workforce. Employees must provide accurate and timely information on complex tax questions, know how to navigate through various computer systems, analyze complex data using the latest technologies, research legal issues, and communicate with citizens at all levels of understanding. It is incumbent upon the Cabinet to provide the necessary staff training and support to ensure that work force skills are adequate to meet the expectations of our customers.

Objective 2.1 Assess professional and leadership development needs and establish Cabinet and departmental training plans for each of the next four years.

The Cabinet is developing a training strategy that will ensure that all employees have the requisite skills to do their jobs. The Cabinet conducted two day-long workshops with Senior Staff in January and February 2002 to determine the current state of training within the Cabinet and to discuss future training needs of the workforce. Currently, a Training Strategies Team is preparing recommendations for Senior Staff and these will be presented for discussion by the end of August 2002. Next steps will come from these recommendations.

Input measure:
- Completion of skills assessment of work force

Output measures:
- Annual training plans
- Number of people trained
- Number of classroom training hours provided to work force

Outcome measure:
- Improvement in tax practitioners' perception that information is reliable and employees are knowledgeable

Excellence is an art won by training and habituation. We are what we repeatedly do. Excellence, then, is not an act, but a habit.

—Aristotle

Objective 2.2 Explore and implement new strategies for leveraging technology to improve training delivery.

Traditional classroom settings for training and development can be augmented by distance learning techniques. Video-conferencing, videotapes, online courses and online forums are examples of such techniques. The training that is most effective is that which provides theory, demonstration, practice and feedback. A traditional classroom setting is most conducive to meeting all of those characteristics. However, distance learning techniques can be employed to some extent to meet the needs of staff at greatly reduced costs. Using the Internet, the Cabinet may be able to deliver training programs to various geographic regions of the Commonwealth and accommodate the varied needs of its employees. Online training forums, in conjunction with videotapes and other resources hold promise for improved training delivery.

Output measure:

- Increased use of distance learning techniques

Objective 2.3 Work with the Personnel Cabinet to improve career paths for KRC employees.

In the 2001 survey of employees, a need was identified to improve career paths for certain classifications. The Revenue Cabinet, working with the Personnel Cabinet, must examine those classifications to determine what changes may be appropriate. Changes might include more steps in some classification series. In some classifications, there is a need to correct pay scales that offer no incentive to move from a non-supervisory to a supervisory position.

Output measure:

- An improvement strategy developed with Personnel Cabinet

Outcome measures:

- Increased employee retention rate
- Improved employee satisfaction as measured by surveys

Objective 2.4 Enhance the Cabinet's Intranet to improve communication and training.

The Revenue Cabinet surveyed employees in 2001. Responses to the survey indicate that employees want primarily two improvements in this agency. First, they want better communication about what is happening in the Cabinet. Second, they want a career path to chart their future. To improve communication, the Cabinet is turning more and more to its Intranet site as a vehicle for communicating up-to-date information. The Intranet site has also become the central point for keeping up with training opportunities and scheduling.

Input measure:

- Increase in the number of PVAs with access to KRC's Intranet
- Increase in the number of publications available on KRC's Intranet

Output measure:

- Increased Intranet usage

Outcome measures:

- Increased cross training
- Improvement in employees' perception of Cabinet-wide communications
- Less reliance on printed publications and manuals

GOAL 3: PROMOTE BALANCED, COST EFFECTIVE COMPLIANCE AND TAXPAYER ASSISTANCE PROGRAMS.

The Revenue Cabinet Strategic Plan is based upon the principle that citizens voluntarily pay their fair share of taxes to support government services. Therefore, it is important that the Cabinet make the voluntary compliance process easy to use and cost efficient for both taxpayers and the government. This goal recognizes that 'compliance' encompasses both voluntary and enforced compliance. Moreover, it recognizes that compliance and assistance go hand in hand. Accurate and timely assistance will translate into higher voluntary compliance rates.

Objective 3.1 Develop more strategies to improve compliance and taxpayer assistance.

Experience indicates that some taxpayers fail to comply with their tax obligations because they do not understand what is required or do not understand how to comply. Providing adequate levels of taxpayer service translates into higher levels of voluntary compliance. Public awareness is the cornerstone of the voluntary compliance effort. The Cabinet constantly seeks new ways to reach taxpayers with information about Kentucky taxes. This approach is intended to decrease unintentional noncompliance.

Output measure:

- A plan to cross-train employees in multiple tax types, linked to annual training plans

Efficiency measures:

- Total revenue collected per filled FTE
- Total compliance revenue collected per total Cabinet budget

Outcome measures:

- Improved service for taxpayers as measured by surveys
- Increased public perception of knowledgeable staff as measured by surveys
- Increased registration of nonfilers

The highest reward for a person's toil is not what he gets for it, but what he becomes by it.

—John Ruskin

Objective 3.2 Leverage technology to improve compliance.

With technological advancements come changes in how data is processed. New opportunities are created to transform data into knowledge. With more knowledge about the cause and effect of taxpayer behavior such as intentional or unintentional noncompliance, the Revenue Cabinet has greater opportunities to undertake corrective action. Compliance programs no longer revolve solely around processing paper documents. Data received in electronic format can be analyzed electronically at speeds and volumes that dwarf traditional methods. Scanning, imaging, electronic filing, telephonic-filing, bar codes, and computer tapes all lend themselves to unique processing and analytical techniques. This objective is directed at focusing resources that will lead to improved compliance rates.

Outcome measures:

- Reduction in number of common filing errors
- Reduction in collection cycle time
- Reduction in number of and dollar amount of uncollectable tax bills issued

Objective 3.3 Improve registration processes to simplify interaction between taxpayers and the Revenue Cabinet.

The need to register a new business often brings taxpayers into direct contact with the Revenue Cabinet for the first time. There are a myriad of questions and concerns about how to correctly start a business and obtain the necessary permits and licenses from federal, state, and local governments. A simple registration process that is easy to understand can go a long way toward eliminating anxiety among taxpayers. This objective is directed at focusing resources to make that achievable.

Output measure:

- Implementation of a new registration system

Outcome measures:

- Simplified registration processes
- Improved customer satisfaction as measured by surveys

Objective 3.4 Improve the Cabinet's public education efforts.

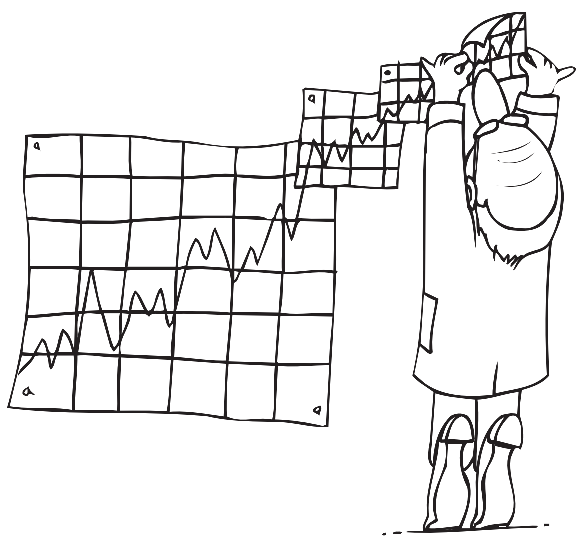
The Cabinet seeks the highest level of voluntary compliance with the tax laws of the Commonwealth as is possible. That objective requires a never-ending public education effort. There are new taxpayers coming of age and entering the work force each year. There are new businesses starting operations in Kentucky each year. There are immigrants moving to Kentucky each year. There are tax law changes almost every year. There are changes in business practices each year. There are tax law changes each year as a result of court cases. These and other reasons require the vigilance to constantly update customers and stakeholders about their rights and responsibilities as taxpaying citizens of Kentucky.

Output measures:

- More Web-based information to support public education
- Customized e-mail announcements

Outcome measure:

- Better informed public regarding tax responsibilities and developments



GOAL 4: STRENGTHEN THE EFFICIENCY AND OPERATIONS OF THE REVENUE CABINET.

Goal Number 4 in the Revenue Cabinet's Strategic Plan is directly tied to Governor Patton's strategic initiative to strengthen the efficiency and operations of state government. Included in this Cabinet goal are initiatives that will reduce costs, eliminate redundancies, maximize the legislative process in order to simplify tax laws, streamline the compliance and assistance processes, and improve research services.

Objective 4.1 Maximize legislative opportunities to support accomplishment of strategic goals.

Each year the Division of Tax Policy solicits legislative proposals from employees throughout the Cabinet. Those proposals are considered by a committee and a determination is made on which proposals will become Cabinet initiatives. The goal is to seek legislative solutions to administrative difficulties encountered by taxpayers as well as our own staff, and to seek legislative enactments or changes which support the overall mission of the Cabinet.

Output measures:

- Number of KRC legislative proposals enacted

Objective 4.2 Implement strategies designed to reduce costs while maintaining and improving quality service.

The further backward you can look, the further forward you are likely to see.

—Winston Churchill

Saving money is everyone's responsibility in the Revenue Cabinet. The responsibility to identify cost savings opportunities is not limited solely to managers. Quite often, the person with the greatest insight about inefficiencies is the frontline employee. Therefore, managers in the Cabinet are encouraged to not only use reports for managing and decision-making but to also solicit ideas from their employees. This objective recognizes that everyone has the opportunity to make significant contributions in fulfilling the Revenue Cabinet mission.

Efficiency Measure:

- Total revenue collected per total dollar spent

Objective 4.3 Instill continuous quality improvement principles throughout the Cabinet.

This objective is an outgrowth of participation by state agencies in the Center for Quality Management (CQM). During Fiscal Year 2001, several agencies sent representatives to a six-day course on integrated management systems sponsored by the CQM. The course focused on developing knowledge and skills to effectively implement improvement strategies to achieve customer satisfaction. CQM concepts include 1) focus on customers, 2) continuous improvement, 3) fundamentals of data analysis and, 4) total participation.

Output measures:

- Number of quality improvement workshops conducted
- Number of Cabinet personnel trained in quality improvement principles

Objective 4.4 Develop and implement strategies to improve all channels of internal and external communication.

During strategic planning a great deal of attention was focused on the importance of communications with customers and stakeholders. The success of programs aimed at improving voluntary compliance is heavily dependent upon accurate information being provided to taxpayers. Only when taxpayers understand their obligations and know how to meet them is voluntary compliance achievable. Taxpayers are dependent upon the Revenue Cabinet for the necessary information. Consequently, the Cabinet must constantly seek ways to improve the flow of information, first to its employees and then to customers and stakeholders.

Output measures:

- Plan to improve internal communication
- Plan to improve external communication
- Improved employee satisfaction as measured by surveys

Objective 4.5 Validate organization structure.

During strategic planning it became apparent that a need existed to examine the current organizational structure as it relates to the goals and objectives of the plan. This step is necessary to ensure that there are no institutional barriers that would create impediments to successfully achieving the goals. This objective addresses that concern and also brings into discussion the need to redesign programs and processes that may be necessitated by retirements. The Cabinet lost more than 8 percent of its work force to retirements during FY 01 and FY 02. That represents a major loss of experienced personnel.

Output measure:
- Revised organization chart

Outcome measure:
- Improved alignment of programs and functions

Objective 4.6 Establish a Cabinet-wide operational planning and reporting system to implement the strategic plan.

The Cabinet's operational planning and reporting system ensures that the strategic plan becomes a working document. The operational plan includes developing and maintaining a project portfolio. Only those projects that directly support the strategic plan will be undertaken, unless otherwise mandated by law or executive order. The projects undertaken in support of the strategic plan goals and objectives are approved by senior leadership. Priorities are set for the various projects in order to allocate resources. Project benefits are determined, timelines established, resources assigned and progress reports submitted once the project is underway.

Output measure:
- Project portfolio that documents KRC strategies
- Action plans
- Periodic progress reports

Outcome measure:
- Achievement of the KRC vision for the future

A Brief History of Taxation
in Kentucky and of the
Kentucky Revenue Cabinet
By Alex W. Rose

As the Revenue Cabinet is about to embark on a new Strategic Plan for our future, it is appropriate to reflect on the history of taxation in the Commonwealth and the history of this agency.

The history of taxation in Kentucky is largely a history of property tax—the state's oldest tax. Property tax actually preceded the formal declaration of the Commonwealth as a state in 1792. Indeed, property tax was one of the issues which led to the early debates over statehood. Property tax funded the first governmental structure, the earliest road-building programs, and the defense of the Union during the Civil War. Its importance to the education of Kentuckians has grown from the funding of the first free school systems to its role in the implementation of the 1990 Kentucky Education Reform Act.

The history of property tax reflects most of the major events shaping the destiny of the Commonwealth. Some of these milestones are presented below in outline form along with other important events in the history of Kentucky's other taxes and of the Revenue Cabinet.

1668: The Dark and Bloody Ground. Land with no taxes. Roving explorers, lured by tales of plentiful game, first venture into the region known as Kentucky.

1782: Property, poll, and legal process taxes are collected in Kentucky County, Virginia.

1792: Statehood is granted on June 1. The Commonwealth of Kentucky becomes the fifteenth state. Less than four weeks later, the Kentucky legislature, at the request of Governor Isaac Shelby, enacts the state's first taxes. They are closely patterned after Virginia's tax system.

KENTUCKY'S FIRST STATE TAX RATES: 1792
Tax on Property

	Tax Rate	Dollar Value Of Tax Rate
Land per 100 acres or proportion	2 shillings	$0.33
Horses, mares, colts, mules	8 pence	.11
Studs	amount of one stud fee	

	Tax Rate	Dollar Value Of Tax Rate
All cattle, per head	3 pence	.04
Coaches and carriages, per wheel	6 shillings	1.00
Other riding carriages with four wheels, per wheel	4 shillings	.67
Two wheel riding carriages, per wheel	6 shillings	1.00
Billiard tables	10 pounds	33.30
Ordinary licenses	3 pounds	9.99
Retail stores	10 pounds	33.30
Poll - white males over 21	rate unknown	

Tax on Law Process

Original writs or subpoenas from Court of Appeals	6 shillings	$1.00
Original writs or subpoenas from Chancery courts	3 shillings	.50
Each appeal to Court of Appeals	12 shillings	2.00
Writs of Error, supersedeas, certiorari from Court of Appeals	6 shillings	1.00
Each final judgment or decree of the Court of Appeals	6 shillings	1.00
Final judgment in other courts	3 shillings	.50
Recording fees for land and town lots	3 shillings	.50
Seal of any court	3 shillings	.50
Seal of Commonwealth	6 shillings	1.00

1793: Property tax collections of $14,198 comprise 87 percent of state government receipts. The property tax is administered by a locally appointed tax commissioner.

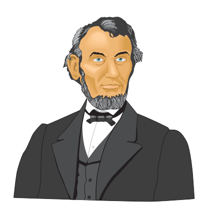
1814: The ad valorem concept is adopted throughout Kentucky.

1838: The first free public school system in Kentucky is established.

1849: The first property tax for education is established at the rate of 2 cents per $100.

1850: Property tax collections of $498,728 comprise 65 percent of state revenue.

1862: The Civil War. State property tax rate rises to 30 cents per $100, then rises to 40 cents per $100 two years later, to “provide funds for paying for troops raised for the defense of the state.”



1870: Property tax collections total over $1 million, comprising 70 percent of all state revenue.

1891: Fourth (and current) Constitution is adopted providing for the office of an elected county assessor, but the General Assembly is given the option of abolishing the office.

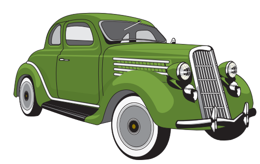
1892: Insurance premium tax is levied at a rate of 2 percent on foreign insurance companies. It becomes the first major nonproperty tax in the 100 year history of the Commonwealth.

1894: General Assembly authorizes counties to levy property taxes of up to 25 cents per $100 for the purpose of funding roads.

1900: Property tax collections surpass $3 million, comprising 68 percent of state revenue.

1906: Corporation license tax is enacted at the rate of 30 cents per $100 on the value of capital represented by property owned and business transacted in the state.

Inheritance tax is enacted.



1910: Motor vehicles are first taxed, based on horsepower.

1914: State road fund is established, based on property tax.

1916: Section 171 of the Kentucky Constitution is amended to allow property to be reclassified by rate structure.

1917: State Tax Commission is created with authority to oversee all taxing functions. The Commission is the beginning of tax administration in Kentucky by a professional agency and is the forerunner of Revenue Department. The Commission is also a regulatory agency. Regulates boxing and wrestling, bus and truck transportation and alcohol trafficking. The Commission consists of three commissioners, two of whom are appointed by the governor. The third is the Auditor of Public Accounts.

1918: The General Assembly abolishes the office of assessor, and creates the statutory office of tax commissioner (renamed property valuation administrator in 1968).

1920: Kentucky becomes the fifth state to adopt a gasoline tax.

1930: Property tax collections total $10 million, comprising 27 percent of state revenue.

1934: First sales tax is enacted and set at 3 percent. Passed in a Special Session during the Great Depression. Enacted at the urging of Governor Ruby Laffoon, sales tax is very unpopular. A mob of about 100 sales tax protesters attacks the Governor’s Mansion destroying furniture and damaging carpets.

Popular children's rhyme resulting from enactment of sales tax:
Hippity-hop to the toy shop
To buy a red balloon
A penny for you, a penny for me,
A penny for Ruby Laffoon.

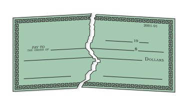
General Assembly creates the "Department of Revenue and Taxation." The State Tax Commission created in 1917 continues as the head of the new department.

State property tax rate is slashed to 5 cents per $100 in response to depressed economy.

1936: Reorganization Act of 1936. The Department of Revenue is created as part of Governor A. B. "Happy" Chandler's reorganization of state government. Replaces State Tax Commission. Located in the Capitol, the department has 100 employees who often work until nine or ten at night. Regulatory functions are dropped. Dr. James W. Martin, a professor of economics at the University of Kentucky, becomes the first Commissioner of Revenue. The new department is charged with the responsibility for enforcing all tax laws.

General Assembly repeals the unpopular sales tax at request of Governor Chandler. Sales tax revenues are replaced with enactment of individual and corporate income taxes.

During first year of the individual income tax, the income tax section consists of six employees. For months, several rooms are filled with unopened returns with checks attached. Many taxpayers stop payment on their checks. Thirty thousand returns are filed.



Taxes are imposed on cigarettes, beer and alcohol (sin taxes) for the first time in Kentucky.

Total receipts for all taxes are $44 million.

1937: First Property Assessment/Sales Ratio Study is conducted from the state level.

1938: Revenuers. From 1938 to 1944, the Revenue Department returns to some of its former regulatory duties. The department becomes responsible for administering the state's alcohol laws including licensing, enforcement, and investigation of bootlegging activities. Department employees apprehend bootleggers and moonshiners in all parts of the state. Here are some statistics from 1941-1943:

Arrests	632
Stills Destroyed	283
Moonshine Destroyed (gallons)	3,364
Mash Destroyed (gallons)	64,285
Cars and Trucks Seized	46
Profit from Contraband Sales	$54,000

1944: Illegal liquor business declines sharply during World War II because of sugar rationing and the shortage of copper. In 1944, Revenue's liquor regulatory duties are transferred to the newly created Department of Alcoholic Beverage Control.

1946: Division of Property Taxation is created.

1948: Racing tax is enacted and levied at a rate of 3 percent on pari-mutuel betting.

1949: Data processing equipment is first used by Revenue. Department rents a key punch machine and a verifier for processing real estate transfers. Data is captured on punchcards and has to be run on Highway Department equipment.

Special Session of the Kentucky General Assembly reorganizes Division of Property Taxation and mandates reappraisal and mapping programs (still mapping today); tax commissioner changed to full-time job status.

1950: The General Assembly increases income tax rates to help finance poor school districts. The new top rate is 6 percent on income over $8,000. Rates have not been changed since.

1952: Revenue Department moves from the Capitol into the newly opened Capitol Annex Building. Finest government office building in the South. Costs $6 million to construct.

1954: Kentucky becomes the fourth state to adopt a withholding system and Revenue begins to collect income tax withheld from paychecks.

1955: Constitutional amendment exempts household and kitchen furniture from property tax. They had been more often omitted than assessed.

1960: Sales and use tax is enacted at 3 percent through a Veterans Bonus Act under Governor Bert T. Combs and becomes effective July 1. Revenue sets up administration of sales tax, including regulations, in only three months.

1965: ***Russman v. Luckett*** decision requires 100 percent market value assessments statewide; special session of the General Assembly lifts rate limits to offset assessment increases.

1966: The General Assembly begins to chip away at the sales tax, approving the first sales tax exemptions since the tax was enacted, among them are exemptions for commercial ships and supplies purchased by their crews as an incentive for commerce on Kentucky's rivers.

1968: General Assembly increases the sales tax from 3 percent to 5.

Farm machinery is exempted from sales tax.

1969: Agricultural deferment amendment provides property tax relief for farmers.

1970: Property tax collections of over $26 million comprise only 2 percent of the General Fund receipts. The General Assembly exempts prescription medicine, prosthetic devices and physical aides from sales and use tax.

1971: Homestead amendment to Kentucky Constitution provides property tax relief for the elderly.

The distilled spirits production and import taxes are eliminated.

1972: The General Assembly exempts grocery store food from sales tax.

The coal severance tax, at 4 percent of the gross value of the coal mined, is imposed to replace revenue lost by the sales tax exemption on food. First major severance tax in the United States.

1974: The national energy crisis causes coal's wholesale price to double, increasing the receipts from severance tax. The Fiscal Year ends with an $83 million surplus - 11 percent of the General Fund.

1977: First computer tax system is implemented. Accounts Receivable system is created to cope with the ever-increasing quantity of documents. Additional systems quickly follow:

1980: Sales Tax system
1981: Individual Income Tax system
1982: Withholding system

Between 1977 and 1985, 10 tax systems are implemented.

1978: The Great Flood. Begins raining on December 7, and keeps on pouring. Kentucky River crests in Frankfort at a record 48.5 feet, almost 18 feet above flood stage. Extensive damage occurs to Revenue's records stored at Fort Boone Plaza. Water is 38 inches deep inside the building and mud is ankle deep. Department efforts to dry tons of soaked records fail. Mildew grows, rotting records. Space age solution is found. General Electric's Space Division and McDonnell Aircraft successfully dry records utilizing a space technology of heating and freezing the records in a vacuum chamber. Cost is $130,000.

1979: House Bill 44 is enacted during the Extraordinary Legislative Session. This bill limits the increase in aggregate revenues from property tax for all taxing districts. The General Assembly also exempts residential utilities from sales and use tax (House Bill 43).

1980: Property tax collections of over $145 million comprise 8 percent of the General Fund receipts.

1981: The Revenue Department undergoes a major reorganization. The Department abandons its nearly half a century old categorical organization (taxing and service divisions) and installs a functional organization (common steps and functions grouped together regardless of type tax).

Allphin v. Butler decision defines PVAs as state employees and directs Revenue to order PVAs to correct assessments.

1982: The Department of Revenue, established in 1936 is abolished and the Revenue Cabinet is created by Executive Order of Governor John Y. Brown, Jr. effective July 1. Ronald G. Geary becomes the first Secretary of Revenue. The governor has been considering demoting Revenue to a department of the Finance and Administration Cabinet, but reconsiders and promotes Revenue to cabinet level.

1984: Motor vehicle property tax is centralized and administered through statewide computer network; all other personal property follows within the next five years.

1985: Sales tax is applied to leases and rentals.

1986: PVAs are required to attend educational courses developed and sponsored by the Revenue Cabinet to qualify for $3,600 expense allowance.

1988: The Kentucky Tax Amnesty program collects more than $61 million, completely eliminating the state budget shortfall and far exceeding tax amnesty collections of comparable states.

Kentuckians for the Commonwealth, Inc. v. Blanton. Franklin Circuit Court issues temporary injunction declaring that Revenue must adopt a centralized assessment program for valuing unmined coal at fair cash value.

Governor Wallace Wilkinson transfers the revenue estimating function from Revenue to the Finance and Administration Cabinet.

PVAs are required to submit quadrennial revaluation plans.

Department of Property Taxation is required to conduct biennial performance audits.

Individual income tax receipts exceed $1 billion for the first time.

1989: The State Lottery, approved by the voters and established by the General Assembly in 1988, goes into operation.

Flood II. Unlike the December 1978 flood, during the February 1989 flood, Revenue Cabinet personnel are prepared and act quickly to prevent damage to records, equipment, and supplies. Documents are evacuated by employees working late into the night. Not a single item is lost or damaged despite the fact that the Kentucky River crests only 3.5 feet shy of the 1978 record flood level.

Sales and use tax receipts exceed $1 billion for the first time.

1990: House Bill 940 (Kentucky Education Reform Act–KERA), the massive education reform measure, is enacted. It increases the sales tax rate from 5 percent to 6 percent, eliminates the deduction for federal income tax paid and requires all property be assessed at 100 percent of fair cash value, by July 1, 1994. Emergency assessment declarations are filed in 25 counties.

The Kentucky Taxpayers' Bill of Rights is enacted, providing for the establishment of the Office of Taxpayer Ombudsman.

1992: A uniform system of civil penalties replaces most existing, unique penalties for taxes administered by the Revenue Cabinet, except property taxes.

1993: Health Care Provider Tax is enacted. It is repealed in 1994 and a new bill enacted. This is necessary in order to receive matching federal funds for the Medicaid program.

1994: Office consolidation. After more than 40 years in the Capitol Annex, Revenue moves to Leestown Square (Fair Oaks). Thus begins consolidation of the Cabinet's nine Frankfort locations into only two (Perimeter Park is the other).

1995: New Technology. Electronic filing of individual income tax returns is offered statewide for first time.

Electronic Funds Transfer is implemented for sales and use and withholding taxes.

Desk top technology is greatly expanded.

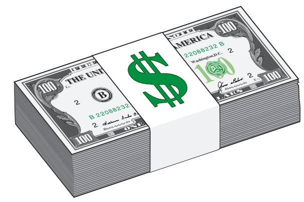
1997: *EMPOWER Kentucky*. Revenue Cabinet receives $36.1 million to improve processes and efficiencies. For every dollar KRS invests in hardware, software and professional services, over $10 is realized in additional tax receipts to state treasury ($245 million through FY '02). Local tax jurisdictions reap over $100 million from property tax programs.

EMPOWER KENTUCKY

St. Ledger v. Revenue Cabinet. Contentious intangible property tax litigation finally ends with Revenue making refunds of the corporate shares tax and the bank deposits tax to taxpayers who had made timely refund requests. The 1990's are a decade of legal challenges. During the 1990's one-third of Commonwealth's tax base is challenged as unconstitutional in several class action lawsuits. More than $1 billion is sought in refunds. Revenue manages these suits successfully, thus avoiding a state financial crisis.

1998: Road Fund receipts exceed $1 billion for the first time.

1999: Original $36.1 million *EMPOWER Kentucky* investment in the Revenue Cabinet proves successful as *EMPOWER* program collections realize an additional $72 million in General Fund receipts. Local taxing jurisdictions realize another $28 million from *EMPOWER* property tax initiatives.



2000: The New Millennium. Revenue experiences no Y2K computer-related problems after an extensive effort to prevent damage to Cabinet data and systems.

Taxpayers are able to file income tax returns via the Internet for the first time.

Individual income and sales and use taxes comprise almost 80 percent of General Fund receipts. Property tax collections are 7 percent.

Tax receipts (General and Road Funds) grow more than $7.2 billion.

Growth of Tax Receipts

1793:	$15 thousand
1936:	$44 million
1986:	$3.1 billion
2000:	$7.2 billion

2002: Kentucky's second Tax Amnesty program, projected to raise $20 million, raises more than $100 million.

New Strategic Plan is implemented.

2003 and beyond: The history of the Revenue Cabinet and Kentucky's system for funding essential government services is still being written by the many dedicated employees of the agency.